## Understanding Groupon Means Understanding ACSOI

Imagine you started a business that delivered people a box of cereal each week. Each week they pay you, you take their money and buy a box of cereal and some shipping, and keep what's left over. You learn that the average new customer brings in $50 in profit over their lifetime, so you decide to spend some of that money to get new customers — say, by buying web ads.

With web ads, you can say exactly how much you want to spend for each new customer. Now the future isn't necessarily like the past — things could go wrong — but it seems safe to, say, spend $5 to get a new customer. If the future is like the past, you'll make $45 each time you do this. And even if future customers are only half as good as current ones, you'll still be making $20 each time you do this!

How much money should you spend on marketing? Well, others have started to notice you making money hand-over-fist and have decided to start competing. Best to get people hooked on your service than on theirs, right? And each dollar you spend now is going to bring in ten times later, so it'd be crazy not to spend everything you could, right? You're only making $10 million a year right now o you get your investors to put in another $100 million and quickly spend it all on marketing.

Now by traditional accounting standards, you're $90 million in the red. But that seems like a misleading way to count. After all, if you stopped marketing tomorrow you'd have a nice, profitable $10 million a year business. Instead it makes sense to look at the $10 million dollars a year you're making on the one hand and your aggressive expansion plan (in particular, how much it costs to get a new customer and the lifetime value expected from a new customer) on the other.

This, as best as I can tell, was the story of Groupon. They called that first number (the business you have now, aside from the expansion attempt) ACSOI.

But the press didn't seem to understand any of this. Groupon was pilloried for playing accounting games that turned a huge loss into a moderate profit. And when, in response, Groupon took the ACSOI numbers out of their prospectus, it was hailed as a victory over fraudulent accounting.

Which all strikes me as ridiculous. Groupon didn't hide the fact that they were losing money by traditional accounting standards. They said so up front, but then provided the additional data that they use internally. Just some additional information, no pressure: "While we track this management metric internally to gauge our performance, we encourage you to base your investment decision on whatever metrics make you comfortable," they said. How does taking this information out of the prospectus help anyone?

Now there are valid questions about this model. Perhaps the future won't be like the past, perhaps Groupon's cost-per-acquisition is way too high, perhaps trying to grow so fast is risky. Or maybe Groupon is presenting misleading ACSOI numbers and even if they stopped all marketing today they'd still be losing money. I'd genuinely like to know. But the discussion needs to start with understanding what they're saying, not just pretending they're making stuff up.

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